

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF MULBERRY)
ENTERPRISES, INC., FOR AN)
ADJUSTMENT OF RATES PURSUANT) CASE NO. 9469
TO THE ALTERNATIVE PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

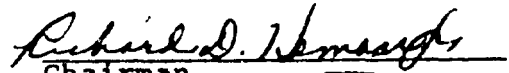
IT IS ORDERED that:


1. The Staff Audit Report for Mulberry Enterprises, Inc., ("Mulberry") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. Mulberry shall have until the close of business February 28, 1986, to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 20th day of February, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A
REPORT ON LIMITED AUDIT
of
MULBERRY ENTERPRISES, INC.

PREFACE

On November 25, 1985, Mulberry Enterprises, Inc., ("Mulberry") filed, pursuant to 807 KAR 5:076 (Alternative Rate Filing), an application seeking an increase in rates. The proposed rates would generate \$12,909 annually in additional revenues.

As part of its endeavor to shorten and simplify the regulatory process, the Commission staff chose to perform a limited financial audit in order to verify test-period expenditures and substantiate the propriety of the test-year financial statements. As a result of this audit, the need for written data requests and the overall expense to the utility in this case should be substantially reduced. The audit was conducted by Mr. Carl Combs of the Division of Rates and Tariffs on January 21 and 22, 1986, at the office of Robert C. Bass, Certified Public Accountant, in Frankfort, Kentucky.

SCOPE

The examination consisted of an analysis and review of major cash disbursements and related financial records for calendar year 1984, which is the test year in this case. The audit was limited to a review for proper accounting treatment of expenses charged to the following accounts:

<u>Account Number(s)</u>	<u>Account</u>
701	Labor and Expenses
702	Rents
703	Fuel and Power
704	Chemicals
705	Miscellaneous Supplies and Expenses
714	Maintenance of Plant
903-A	Agency Collection Fee
921	Office Supplies and Other Expenses
923	Outside Services
924	Insurance Expense
403	Depreciation Expense
408	Taxes Other than Income Taxes
427	Interest on Long-Term Debt

Reconciliation tests were performed on the aforementioned accounts and supporting documentation was also examined to determine whether costs reflected in the above accounts were appropriately expensed under the requirements of the Uniform System of Accounts for Class C and D Sewer Utilities.

FINDINGS

A review of Mulberry's accounting system revealed no major problems. Test-year charges to the 13 accounts listed in the previous section of this report were reconciled to the detailed trial balance except in two instances. Also, it was determined that two outlays of a capital nature, which should have been capitalized, were expensed.

In support of test-year wages for Mr. Paul Mulberry, Mr. Mulberry provided a calendar on which he recorded the number of hours worked at the sewage treatment plants. Entries showed only the number of hours worked on a given day with no details as to what was done. No further documentation was made available regarding actual work performed by Mr. Mulberry.

An examination of test-year cancelled checks revealed that, during 1984, 26 checks for contract labor were paid to Mr. Mulberry for a total of \$11,140. One check for \$20 for contract labor was paid to another man. Mulberry's 1984 annual report shows that \$6,290 for service contract fees was accrued. The three amounts listed above account for the grand total of \$17,450 charged to Account No. 701-C--Other-Labor, Materials and Expenses for the test year.

An examination of 1984 records of Mulberry revealed that the following adjustments are necessary:

1. The main objective of the audit was to assure the propriety of each outlay charged to test-year expenses. An examination of test-year outlays charged to expense accounts revealed that two of the test-year expenditures would benefit more than one accounting period and were of a material amount. An expenditure benefiting more than one accounting period and of a material amount should be charged to appropriate Utility Plant in Service accounts and depreciated over a period approximating the number of accounting periods which the expenditure will benefit. The two outlays improperly expensed were as follows:

- A. Check No. 363 dated June 6, 1984, for \$177.45 payable to Purestream, Inc., charged to Account No. 714--Maintenance of Treatment and Disposal Plant. The supporting invoice, dated May 15, 1984, shows that this amount relates to purchase of a motor and feed tubes, equipment which should have been included in plant Account No. 373--Treatment and Disposal Equipment. In this instance, an annual depreciation rate of 20

percent applicable to 7 months is appropriate. Therefore, Account No. 714 has been reduced by \$177.45, Account No. 373 increased by \$177.45 and Account No. 403--Depreciation Expense increased by \$20.70.

B. Check No. 405 dated October 17, 1984, for \$282.62 payable to Lexington Industrial Service Co., Inc., charged to Account No. 714--Maintenance of Treatment and Disposal Plant. The supporting invoice, dated October 17, 1984, shows that this amount pertains to purchase of a motor and bracket, equipment which should have been included in plant Account No. 373--Treatment and Disposal Equipment. In this instance, an annual depreciation rate of 20 percent applicable to 2 months is appropriate. Therefore, Account No. 714 has been reduced by \$282.62, Account No. 373 increased by \$282.62 and Account No. 403--Depreciation Expense increased by \$9.42.

The combined effect of the foregoing analysis on the operating statement is to decrease Account No. 714 by \$460.07 and increase Depreciation Expense by \$30.12.

2. As mentioned previously, charges to two expense accounts did not reconcile to the detailed trial balance. Account No. 714--Maintenance of Treatment and Disposal Plant was understated by \$287.59 which Account No. 403--Depreciation Expense was overstated by a like amount. An adjustment has been made to correct this error.

The total effect of these adjustments on Mulberry's 1984 operating statement is as follows:

Acct. No.	Test Year per Annual Report	Staff Audit Adjustments	Staff Adjusted
<u>Operating Revenues</u>	\$ 31,991	\$ -0-	\$ 31,991
<u>Operating Expenses:</u>			
701-C Sludge Hauling	\$ 50	\$ -0-	\$ 50
701-C Water Cost	1,533	-0-	1,533
701-C Other-Labor, Materials	17,450	-0-	17,450
702 Rents	1,200	-0-	1,200
703 Fuel and Power	4,856	-0-	4,856
704 Chemicals	175	-0-	175
705 Misc. Supplies & Expenses	987	-0-	987
714 Maint. of Treatment Plant	747	<173>	574
903-A Agency Collection Fee	4,799	-0-	4,799
921 Office Supplies	440	-0-	440
923 Outside Services	1,357	-0-	1,357
924 Insurance Expense	266	-0-	266
403 Depreciation Expense	2,336	<257>	2,079
Amortization Expense	46	-0-	46
408 Taxes Other than Income Tax	395	-0-	395
Total Operating Expenses	\$ 36,637	\$ <430>	\$ 36,207
Net Operating Income	\$ < 4,646 >	\$ -0-	\$ < 4,216 >
<u>Other Income/(Deductions):</u>			
Interest and Dividend Income	\$ 54	\$ -0-	\$ 54
Interest on Long-Term Debt	< 1,924 >	-0-	< 1,924 >
Total Other Income, (Deductions)	\$ < 1,870 >	\$ -0-	\$ < 1,870 >
Net Income	\$ < 6,516 >		\$ < 6,086 >

CONCLUSION

Mulberry had no major distortions on its 1984 operating statement. Adjustments to correct the minor errors have been made herein. Mulberry should make these adjustments on its books and file a revised 1984 Annual Report to reflect these adjustments. Also, Mulberry should initiate and maintain much better documentation of routine maintenance services, including details of actual work performed.

Carl S. Combs
Carl Combs, Public Utilities
Financial Analyst Senior